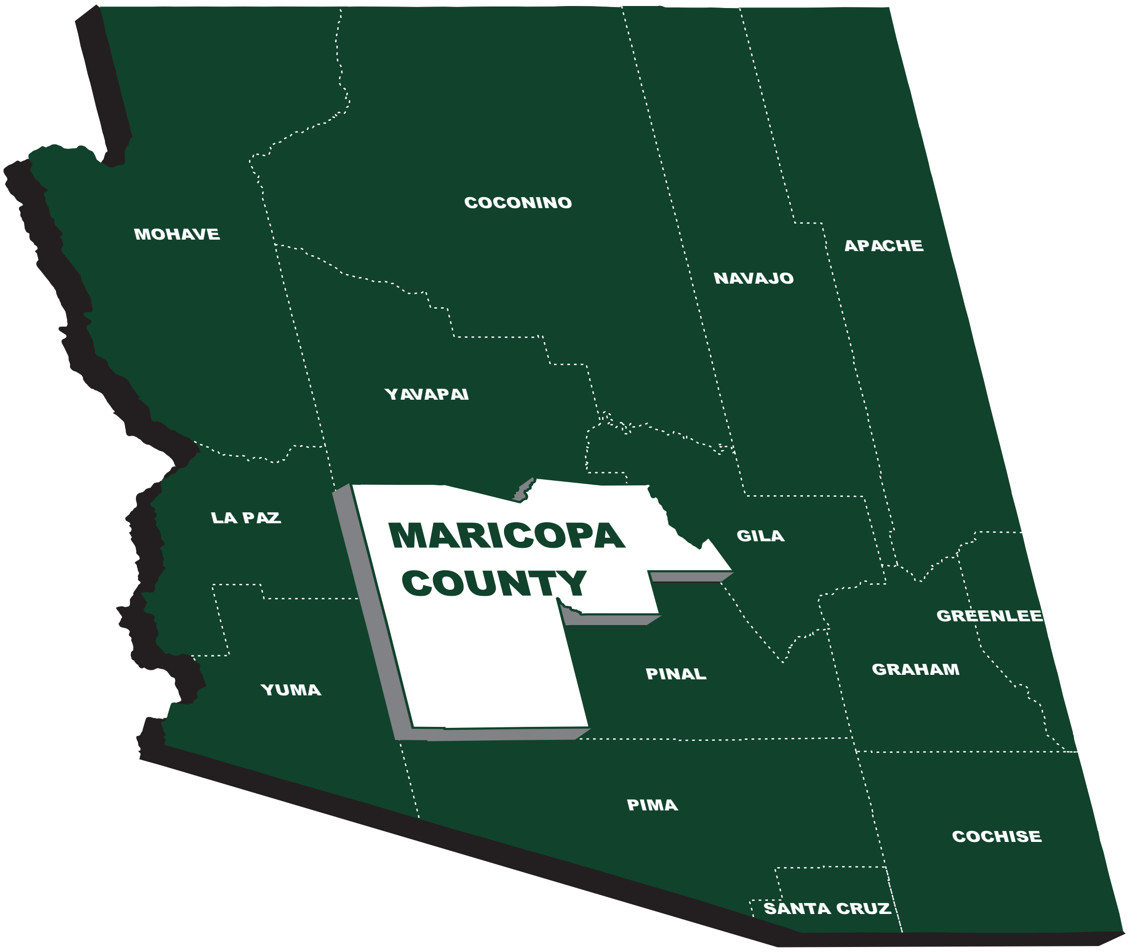
Risk Management and Employee Benefits Trust Report on Audit of Financial Statements

Fiscal Year Ended June 30, 2009



Maricopa County, Arizona

www.maricopa.gov

MARICOPA COUNTY, ARIZONA
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Report on Audit of Financial Statements
June 30, 2009

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Report on Audit of Financial Statements
June 30, 2009

Table of Contents	**Page**

Independent Auditor's Report

Board of Supervisors of
Maricopa County Risk Management
and Employee Benefits Trust Funds
Maricopa County, Arizona

We have audited the accompanying statements of net assets - internal service funds of the Maricopa County Risk Management and Employee Benefits Trust Funds (Trust Funds) as of June 30, 2009, and the related statements of revenues, expenses and changes in fund net assets (deficit) – internal service funds, and cash flows – internal service funds for the year then ended. These financial statements are the responsibility of the Maricopa County's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the Trust Funds' financial statements are intended to present the financial position, changes in financial position and cash flows of only that portion of the governmental activities of Maricopa County, Arizona that is attributable to the Trust Funds. They do not purport to and do not present fairly the financial position of Maricopa County, Arizona as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maricopa County Risk Management and Employee Benefits Trust Funds as of June 30, 2009, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management Discussion and Analysis on pages 5 through 10 is not a required part of the basic financial statements, but is supplementary information required by generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Maricopa County Risk Management and Employee Benefits Trust Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of audits performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Clifton Gunderson LLP

Phoenix, Arizona
October 30, 2009

Report On Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Supervisors of
Maricopa County Risk Management
and Employee Benefits Trust Funds
Maricopa County, Arizona

We have audited the financial statements of Maricopa County Risk Management and Employee Benefits Trust Funds (the Trust Funds) as of and for the year ended June 30, 2009, and have issued our report thereon dated October 30, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Trust Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain other matters that we reported to management of the Trust Funds in a separate letter dated October 30, 2009.

This report is intended for the information and use of the Board of Supervisors, and management and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Phoenix, Arizona
October 30, 2009

This section of the financial statements of the Maricopa County Risk Management and Employee Benefits Trust Funds presents a discussion and analysis of its financial performance for the fiscal year ended June 30, 2009. Management's Discussion and Analysis (MDA) is to be read in conjunction with the basic financial statements.

Overview of the Financial Statements

Maricopa County, Arizona (County) established a Trust Fund and declares itself Self-Insured under the provisions of A.R.S. 11-981. For financial statement presentation purposes, the Self-insured Trust Fund is reported as the Maricopa County Risk Management and Employee Benefits Trust Funds (Funds). The Fund's basic financial statements are prepared on the basis of accounting principles generally accepted in the United States of America for governmental bodies as applicable. The primary purpose of the Risk Management Fund is to provide indemnity protection from liability claims and lawsuits and to provide a source of funds to repair or replace damaged structures and/or personal property when damaged by a covered peril for County departments, County districts and other participants. The primary purpose of the Employee Benefits Fund is to provide certain health benefits (medical, dental, pharmacy, short-term disability, medical incentives, behavioral health and vision) to eligible County employees and their dependents.

The basic financial statements are presented on the accrual basis of accounting. The three basic financial statements are as follows:

<u>Statement of Net Assets (Deficit)</u>
This statement presents information reflecting the assets, liabilities, and accumulated net assets of each Fund as of June 30, 2009.

<u>Statement of Revenues, Expenses and Changes in Net Assets (Deficit)</u>
This statement reflects the revenues and expenses, as well as non-operating revenues during the year ended June 30, 2009.

<u>Statement of Cash Flows</u>
This statement reflects the cash flows from operating, investing, capital and related financing activities during the year ended June 30, 2009.

Financial Highlights

The more significant highlights of fiscal year 2009 as compared to fiscal year 2008 follows:

<u>Risk Management</u>

- Cash and cash equivalents increased $12,439,065 from $43,085,804 as of June 30, 2008 to $55,524,869 as of June 30, 2009.

- Total assets increased $12,072,703 from $44,847,793 as of June 30, 2008 to $56,920,496 as of June 30, 2009.

- Net deficit decreased $7,575,049 from $(14,429,228) as of June 30, 2008 to $(6,854,179) as of June 30, 2009.

- Change in net assets decreased $4,008,971 from $11,584,020 for 2008 as compared to $7,575,049 for 2009.

Employee Benefits

- Cash and cash equivalents increased $7,697,919 from $52,151,574 as of June 30, 2008 to $59,849,493 as of June 30, 2009.

- Total assets increased $6,582,761 from $54,743,300 as of June 30, 2008 to $61,326,061 as of June 30, 2009.

- Net assets increased $5,732,408 from $39,209,527 as of June 30, 2008 to $44,941,935 as of June 30, 2009.

- Change in net assets decreased $221,139 from $5,953,547 for 2008 as compared to $5,732,408 for 2009.

The following tables and analysis discuss the financial position of the Funds as of June 30, 2009 and 2008 and the results achieved from the operations of the Funds for the year ended June 30, 2009 as compared to the year ended June 30, 2008.

Summary of Net Assets

Risk Management

	June 30,	
	2009	**2008**
Cash and cash equivalents	$ 55,524,869	$ 43,085,804
Prepaid insurance	1,261,618	1,482,692
Capital assets, net	19,461	23,017
All other assets	114,548	256,280
Total assets	$ 56,920,496	$ 44,847,793
Reserve for losses and loss expenses	$ 62,429,120	$ 58,072,094
Accounts payable	1,213,024	1,079,364
All other liabilities	132,531	125,563
Net assets (deficit)		
Invested in capital assets	19,461	23,017
Unrestricted (deficit)	(6,873,640)	(14,452,245)
Total liabilities and net assets	$ 56,920,496	$ 44,847,793

Cash and cash equivalents increased by $12.4 million or 28.8% as of June 30, 2009 compared to June 30, 2008. The increase is primarily attributable to bringing in $36.4 million in revenue with $24.0 million of payouts, leaving $12.4 million of net cash. Capital assets decreased by $3,556 which is depreciation expense in 2009.

Reserve for losses and loss expenses increased by $4.4 million or 7.5%. The increase resulted from an increase in reported claims of $2.4 million and an increase in the provision for incurred but unreported losses (IBNR) of $2.0 million. This increase resulted from lower payments than expected this fiscal year still continuing to have reserved losses with the addition of new claims coming in.

Net assets are reported in the accompanying financial statements as unrestricted and invested in capital assets.

Employee Benefits

	June 30, 2009	June 30, 2008
Cash and cash equivalents	$ 59,849,493	$ 52,151,574
Prepaid insurance	108,154	115,270
Capital assets, net	6,283	9,661
All other assets	1,362,131	2,466,795
Total assets	$ 61,326,061	$ 54,743,300
Reserve for losses and loss expenses	$ 11,497,701	$ 10,546,651
Accounts payable	4,747,476	4,804,943
All other liabilities	138,949	182,179
Net assets		
Invested in capital assets	6,283	9,661
Unrestricted	44,935,652	39,199,866
Total liabilities and net assets	$ 61,326,061	$ 54,743,300

Cash and cash equivalents increased by $7.7 million or 15% as of June 30, 2009 compared to June 30, 2008. The increase is primarily attributable to $5.7 million of revenue in excess of expenses and an increase in investment income of $2.0 million.

Reserve for losses and loss expenses increased by $951,050 or 9%. The increase resulted from an increase in paid claims and the increase in the provision for incurred but unreported losses (IBNR).

The increase in reserve for claims incurred but not reported is due to increased losses, and expected loss experience resulting from the increase in costs in claims settlement.

Net assets are reported in the accompanying financial statements as unrestricted and invested in capital assets.

Capital Assets and Related Debt

The Funds investment in capital assets as of June 30, 2009, amounted to $19,461 net of accumulated depreciation for Risk Management and $6,283 for Employee Benefits. Capital assets consist of equipment and furnishings. No long-term debt was added in 2009.

Depreciation expense for Risk Management for fiscal year 2009 was $3,556 as compared to $9,655 in 2008. Depreciation expense for Employee Benefits for fiscal year 2009 was $3,379 as compared to $4,586 in 2008.

Summary of Revenues and Expenses and Changes in Net Assets

Risk Management

	Years Ended June 30, 2009	2008
Operating income	$ 35,172,048	$ 38,272,014
Other income		557,129
Investment income	1,132,429	1,794,786
Total revenue	36,304,477	40,623,929
Losses and loss expenses	22,029,433	22,160,287
All other expenses	6,699,995	6,879,622
Total expenses	28,729,428	29,039,909
Excess of revenues over expenses	$ 7,575,049	$ 11,584,020

Operating income decreased by $3.1 million. The decrease in operating income is primarily a result of a decrease in user charges in fiscal year 2009 due to an $11.7 net increase in cash in fiscal year 2008. When there is a large excess of cash in a fiscal year, the user charges will be decreased the next fiscal year. Other income included $557,129 in refunds of broker fees, reimbursements for excess insurance and tax refunds in fiscal year 2008 that were not received or scheduled to be received in fiscal year 2009. Investment income decreased $662,357 in fiscal year 2009 due to lower rates of return during the weakening economy compared to fiscal year 2008.

Total expenses decreased by approximately $310,000 or 1.0%. This decrease is due to a slight decrease in loss and loss expenses of approximately $131,000 and a decrease of $179,000 for other expenses during the fiscal year ended June 30, 2009.

The excess of revenues over expenses was $7.6 million for 2009, a decrease of approximately $4 million from $11.6 million for 2008, primarily resulting from lower claim payments than expected.

Employee Benefits

	Years Ended June 30, 2009	2008
Operating income	$ 129,607,798	$ 122,704,164
Other income	54,131	101,675
Investment income	1,354,252	2,587,109
Total revenue	131,016,181	125,392,948
Losses and loss expenses	99,512,245	96,023,592
All other expenses	25,771,528	23,415,809
Total expenses	125,283,773	119,439,401
Excess of revenues over expenses	$ 5,732,408	$ 5,953,547

Net revenue increased by $5.6 million. The increase in net revenue is primarily a result of an increase in the charges for services and premiums. The investment income includes $1.4 million of interest and dividends, realized gains, and unrealized gains on investments for the year ended June 30, 2009.

Total expenses increased by approximately $5.8 million or 5%. This increase is primarily due to the increase in claims and changes in estimates of approximately $3.5 million during the fiscal year ended June 30, 2009.

The excess of revenues over expenses was $5.7 million for 2009, a decrease of approximately $221,000 from $5.9 million for 2008, primarily resulting from an increase in operations and a decrease in investment income.

Net Assets Deficit

The County Board of Supervisors elected not to fund the Risk Management Trust Fund's unpaid claims in fiscal years 1996 through 1999. Consequently, the Risk Management Trust Fund only billed user departments for operating costs and administrative expenses for those years. This resulted in a total net assets deficit of $23,321,519 at June 30, 1999. Starting July 1, 1999, the Risk Management Trust Fund implemented a funding plan that calls for the fiscal year ending cash balance to equal the next year's estimated claims and claims related expenses. As of June 30, 2009, the total net assets (deficit) was $6,854,179. This is primarily due to the Risk Management Trust Fund not being funded for noncurrent accrued claim liabilities which are not considered when determining funding for each fiscal year.

Economic Factors

During the budget and planning process for fiscal year 2009, County management was aware of the declining economy. Maricopa County's main revenue sources of sales tax, vehicle license tax and jail taxes were continuing to decline as they had in the previous fiscal year. The Arizona economy was in a downturn and the housing market was deteriorating. There were tougher lending standards, consumer spending was down, and the unemployment rate was increasing.

As a result, County management continued the hiring freeze and a capital purchase freeze they had implemented in the prior fiscal year. In addition, County leadership asked each department to submit 5, 10, and 15 percent budget reduction scenarios. This included the Risk Management and Employee Benefits departments.

The Risk Management Trust Fund projected claim and claims expense payments using an eighty percent confidence level for both fiscal years 2009 and 2008. In the past years, a fifty five percent confidence level had been used. Due to the foreseen economic problems, County management used the greater confidence level.

Contact Information

The management report is to provide our participants, customers and consultants with a general overview of the Funds finances. If you have any questions about this report or need additional information, please contact the Maricopa County Risk Management Department, 222 N. Central Ave., Suite 1110, Phoenix, AZ 85004, or the Employee Health Initiatives Department, 301 S. 4th Ave., Suite B100, Phoenix, AZ 85003, or at www.maricopa.gov.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Net Assets (Deficit)—Internal Service Funds
June 30, 2009

	Risk Management	Employee Benefits
Assets		
Cash and cash equivalents	$ 55,524,869	$ 59,849,493
Interest receivable	114,548	122,011
Accounts receivable		1,240,120
Prepaid insurance	1,261,618	108,154
Capital assets, net	19,461	6,283
Total assets	56,920,496	61,326,061
Liabilities		
Accounts payable	1,213,024	4,747,476
Employee compensation payable	132,531	138,949
Reserve for losses and loss expenses	62,429,120	11,497,701
Total liabilities	63,774,675	16,384,126
Net Assets		
Invested in capital assets	19,461	6,283
Unrestricted (deficit)	(6,873,640)	44,935,652
Total net assets (deficit)	$ (6,854,179)	$ 44,941,935

The accompanying notes are an integral part of the financial statements.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Revenues, Expenses, and
Changes in Net Assets (Deficit)—Internal Service Funds
Year Ended June 30, 2009

	Risk Management	Employee Benefits
Operating revenues:		
Charges for services	$ 35,172,048	$ 5,072,815
County and employee premiums		124,534,983
Other income		54,131
Total operating revenues	35,172,048	129,661,929
Operating expenses:		
Personal services	1,733,991	2,095,194
Supplies and services	1,175,588	9,228,499
Legal expenses	7,201,470	
Workers compensation self-insurance tax	604,137	
Losses and loss expenses	18,010,686	113,956,701
Depreciation	3,556	3,379
Total operating expenses	28,729,428	125,283,773
Operating income	6,442,620	4,378,156
Nonoperating revenues:		
Investment income	1,132,429	1,354,252
Total nonoperating revenues	1,132,429	1,354,252
Increase in net assets	7,575,049	5,732,408
Total net assets (deficit), July 1, 2008	(14,429,228)	39,209,527
Total net assets (deficit), June 30, 2009	$ (6,854,179)	$ 44,941,935

The accompanying notes are an integral part of the financial statements.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Cash Flows—Internal Service Funds
Year Ended June 30, 2009

	Risk Management	Employee Benefits
Cash flows from operating activities:		
Receipts from employees and other funds	$ 35,172,048	$ 130,523,672
Other receipts		54,131
Payments for goods and services	(22,280,121)	(122,284,501)
Payments to employees	(1,727,023)	(2,138,424)
Net cash provided by operating activities	11,164,904	6,154,878
Cash flows from investing activities:		
Interest received on investments	1,274,161	1,543,041
Net increase in cash and cash equivalents	12,439,065	7,697,919
Cash and cash equivalents, July 1, 2008	43,085,804	52,151,574
Cash and cash equivalents, June 30, 2009	$ 55,524,869	$ 59,849,493
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 6,442,620	$ 4,378,156
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,556	3,379
Changes in assets and liabilities:		
Increase in:		
Accounts payable	133,660	
Employee compensation payable	6,968	
Reserve for losses and loss expenses	4,357,026	1,032,703
Decrease in:		
Prepaid insurance	221,074	7,116
Accounts payable		(139,121)
Accounts receivable		915,874
Employee compensation payable		(43,229)
Net cash provided by operating activities	$ 11,164,904	$ 6,154,878

The accompanying notes are an integral part of the financial statements.

NOTE 1 - Organization and Summary of Significant Accounting Policies

Maricopa County, Arizona (the County), in the exercise of the authority granted by Arizona Revised Statutes (A.R.S.) §11-981, has established trust funds and declares itself self-insured. For financial statement presentation purposes, the Self-insured Trust Fund is reported as Risk Management and Employee Benefits Trust Funds (Funds) and all monies held in these Funds are considered restricted for purposes of self-insurance. The Funds' financial statements are prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). The accompanying financial statements are those of the funds and do not represent the financials statements of the County. The Maricopa County, Arizona *Comprehensive Annual Financial Report* as of and for the year ended June 30, 2009, will report the Funds as governmental activities on the government-wide financial statements since they predominantly service the County's governmental funds. A summary of the Funds' significant accounting policies follows.

A. Reporting Entity

The Funds are accounted for as internal service funds of Maricopa County, Arizona, under the direction of an administrator appointed by the County Board of Supervisors. In addition, the Funds are administered by no less than six joint trustees, all of whom shall be citizens of the United States of America and residents of Maricopa County. The County Board of Supervisors also appoints the trustees. However, the ultimate financial accountability for the Funds remains with the County. The County is responsible for the management and operations of the financing of the uninsured risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and for certain health benefits (medical, dental, pharmacy, short-term disability, medical incentives, behavioral health and vision) to eligible County employees and their dependents.

B. Fund Accounting

The Funds' accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Funds' available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, net assets, revenues, and expenses.

The Funds' financial transactions are recorded and reported as internal service funds since their operations are financed and operated in a manner similar to private business enterprises. The intent of the County Board of Supervisors is that the costs (expenses, including depreciation) of providing goods or services to other departments within the County on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Presentation and Accounting

The financial statements include statements of net assets; statements of revenues, expenses, and changes in fund net assets; and statements of cash flows.

The statements of net assets provide information about the assets, liabilities, and net assets of the Funds at the end of the year. Assets and liabilities are unclassified. Invested in capital assets represents the value of capital assets, net of accumulated depreciation. Unrestricted net assets represent the balance of monies held in the Funds.

The statements of revenues, expenses, and changes in fund net assets provide information about the Funds' financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported. Generally, charges for services and premiums are considered to be operating revenues. Other revenues such as investment income are not generated from operations and are considered to be nonoperating revenues. The cost of services, administrative expenses, and depreciation on capital assets are considered to be operating expenses.

The statements of cash flows provide information about the Funds' sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital and related financing, or investing.

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied, and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of the Funds are presented on the accrual basis of accounting using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

The Funds apply applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The Funds have chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Funds consider cash on hand, demand deposits, cash on deposit with the County Treasurer, and highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents.

F. Capital Assets

Equipment is initially recorded at cost. Depreciation of equipment is charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives of equipment range from 3 to 10 years.

G. Reserve for Losses and Loss Expenses

The Funds establish claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other socioeconomic factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

H. Employee Compensation Payable

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered. Employees may accumulate up to 240 hours of vacation leave, but any vacation hours in excess of the maximum amount that are unused at calendar year-end convert to sick leave. Upon termination of employment, all unused vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, County employees with accumulated sick leave in excess of 1,000 hours are entitled to a $10,000 nontaxable investment in a Post Employment Health Plan established pursuant to Internal Revenue Code §501(c)(9). The obligations vested at June 30, 2009, under this policy are accrued as a liability.

Compensated absences are substantially paid within one year from fiscal year-end and, therefore, are reported as a current liability.

I. Income Tax

The Trust Funds are a component unit of Maricopa County, Arizona, a governmental agency, and are exempt from federal and state income taxes.

NOTE 2 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) authorize the Funds to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be rated P1 by Moody's investors service or A1 or better by Standard and Poor's rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors service or Standard and Poor's rating service.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk

Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Interest rate risk

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

Deposits—At June 30, 2009, the carrying amount of the Funds' deposits was $649,920, and the bank balance was $649,921. The Funds follow the County's policies requiring collateralization of all deposits by at least 101% of the deposits not covered by depository insurance. At a minimum, the collateral is to be held by the pledging financial institution or its agent, but does not have to be held in the County's name.

Investments—The Funds' investments at June 30, 2009, consisted of monies invested in the Maricopa County Treasurer's Investment Pool. The Funds' investments in the pool represent a portion of the County Treasurer's pool portfolio. There is no oversight provided for the County Treasurer's investment pool, and the pool's structure does not provide for shares. The Funds' portion in the pool is not identified with specific investments.

***Credit Risk*—**The Funds follow the County's policy to preserve the principal value and the interest income of an investment. The County can invest in obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, or instrumentalities. The County can also invest in commercial paper and corporate bonds with ratings that meet the statutory requirements specified above. At June 30, 2009, the Funds' investments consisted of monies invested in the Maricopa County Treasurer's Investment Pool which is unrated.

Interest rate risk**—**It is the County's policy to hold investments to maturity, where practical, and avoid any loss on investments resulting from an early sale or retirement of an investment. Additionally, securities should be invested for a shorter duration, where applicable. At June 30, 2009, the Funds had investments of $114,724,140 in the Maricopa County Treasurer's Investment Pool with a weighted average maturity of 547 days, of which 35% (in excess of $1 billion) of pooled investments have maturities of 90 days or less. The County invests the pooled investments primarily in U.S. government agency securities.

A reconciliation of cash, deposits, and investments to amounts shown on the Statements of Net Assets follows:

Cash, deposits, and investments:	
Cash on hand	$ 300
Amount of deposits	649,920
County Treasurer's Investment Pool	114,724,142
Total	$115,374,362

NOTE 3 - Reserve for Losses and Loss Expenses

The Funds provide for claims liabilities based on estimates of the ultimate cost of claims, including future claims adjustment expenses, that have been reported but unpaid (RBUC), and of claims that have been incurred but not reported (IBNR).

The County is liable for any single claim up to the insurance deductible or self-insurance retention (SIR), whichever is applicable, and the excess over insurance limits. Settled claims have not exceeded the commercial insurance coverage limits over the past 3 years.

Risk Management Trust Fund

Reserve for losses and loss expenses are estimates of the ultimate cost of claims that include the insurance deductible, the SIR, and the excess over insurance limits. The estimates are determined by an independent actuary using the following actuarial methods: reported loss development, paid loss development, Bornhuetter-Ferguson reported loss and paid loss, frequency times severity, expected loss, incremental paid-workers' compensation, paid allocated loss adjustment expense to paid loss development-automobile liability, and tail liability for medical malpractice. Total liabilities are equal to the sum of:

1. Reported but unpaid claims (RBUC), which represent the estimated liability on reported claims established by the Risk Management department and

2. Incurred but not reported (IBNR) reserves, which include known loss events that are expected to become claims and expected future development on claims already reported. Therefore, IBNR is largely an estimate of loss and claim adjustment expenses associated with future likely claims activity based on historical actual results that establish a reliable pattern.

Accrued actuarial liabilities are based on a discounted 55 percent confidence level assuming a 2.55 percent annual rate of return on investments.

The total liabilities reported at June 30, 2009, categorized by insurable area follow:

	Total Liabilities
Auto liability	$ 3,104,671
General liability	33,495,471
Workers' compensation	11,756,578
Medical malpractice	13,515,891
Auto physical damage	314,319
Property	242,190
Total	$62,429,120

The total estimates of unpaid claim liabilities of $62,429,120 at June 30, 2009, increased by $4,357,026 from last year's balance of $58,072,094. The areas with the largest increases were auto liability, general liability, workers' compensation, and medical malpractice.

Changes in the liabilities for unpaid auto, general, workers' compensation, medical malpractice, auto physical damage, and property claims follow:

	FY 2008-09	FY 2007-08	FY 2006-07
Balance July 1	$58,072,094	$57,730,019	$55,916,393
Current-Year Claims and Changes in Estimates	13,180,821	13,460,325	16,330,438
Claim Payments	(8,823,795)	(13,118,250)	(14,516,812)
Balance June 30	$62,429,120	$58,072,094	$57,730,019

Of these liabilities, $22,251,844 were actuarially estimated to be payable within the next 12 months.

Employee Benefits Trust Fund

The liability for medical, dental, pharmacy (Coinsurance), short-term disability, behavioral health and vision claims as shown below is based on the fiscal year 2008-09 actuarial reports. The Consumer Choice Plan portion of the liability for pharmacy is based on the unused portion of the members' pharmacy accounts administered by Walgreens Health Initiatives.

Accrued claims liabilities at June 30, 2009, for each insurable area follow:

Medical	$8,449,000
Dental	286,000
Pharmacy	2,174,701
Short-term disability	296,000
Behavioral Health	216,000
Vision	76,000
Total	$11,497,701

Changes in the liabilities for unpaid pharmacy, medical, dental, short-term disability, vision and behavioral health claims follow:

	FY 2008-09	FY 2007-08	FY 2006-07
Balance July 1	$10,546,651	$2,206,068	$2,771,985
Current-Year Claims and Changes in Estimates	99,512,245	95,933,611	16,022,997
Claim Payments	(98,479,540)	(87,449,314)	(16,588,914)
Other Payments	(81,653)	(143,714)	
Balance June 30	$11,497,701	$10,546,651	$2,206,068

It is estimated that the June 30, 2009, liabilities balance of $11,497,701 will be paid within the next 12 months.

NOTE 4 - Net Assets Deficit

The County Board of Supervisors elected not to fund the Risk Management Trust Fund's unpaid claims in fiscal years 1996 through 1999. Consequently, the Risk Management Trust Fund only billed user departments for operating costs and administrative expenses for those years. This resulted in a total net assets (deficit) of $23,321,519 at June 30, 1999. Starting July 1, 1999, the Risk Management Trust Fund implemented a funding plan that calls for the fiscal year ending cash balance to equal the next year's estimated claims and claims related expenses. As of June 30, 2009, the total net assets (deficit) was $6,854,179. This is primarily due to the Risk Management Trust Fund not being funded for noncurrent accrued claim liabilities which are not considered when determining funding for each fiscal year.

NOTE 5 - Letter of Credit

On July 1, 2008, the County renewed its workers' compensation insurance with a self-insured retention of $2,000,000 for the policy period July 1, 2008 through June 30, 2009. As a result, the Industrial Commission of Arizona required the County to secure an irrevocable letter of credit in the amount of $4.2 million with a financial institution to cover unfunded workers' compensation claims for that policy period. During fiscal year 2008-09, the letter of credit had not been drawn upon. The letter of credit was renewed on July 1, 2009 to June 30, 2010 for $5.3 million.

NOTE 6 - Retirement Plan

Plan Description—The Funds contribute to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System (ASRS). Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the ASRS, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the Fund's contribution rates. For the year ended June 30, 2009, active plan members and the Funds were each required by statute to contribute at the actuarially determined rate of 9.45 percent (8.95 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The Fund's contributions to the System for the years ended June 30, 2009 and 2008 were $260,993 and $268,973, respectively. Only the Risk Management Trust Fund recorded personnel costs in fiscal year 2007 with contributions to the System for $107,105. Each year's contribution was equal to the required contributions for the year.